

## **Sri Lanka Ports Management and Consultancy (Pvt) Ltd – 2018**

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### **1.1 Opinion**

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The audit of the financial statements of the Sri Lanka Ports Management and Consultancy (Pvt) Ltd for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Sized Entities.

### **1.2 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Financial Reporting Standards for Small and Medium sized Entities and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

## 1.4 Auditor's Responsibility for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the

Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statements**

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**1.5.1 Internal Control over the Preparation of Financial Statements**

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The Company is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

**1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.**

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<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Sections 7(1), 8(1) and 23 of the Right to Information Act, No.12 of 2016	Provisions including the appointment of an Information Officer had not been made for taking action in compliance with the Act.	Action will be taken to comply with your requirements i, ii and iii, after obtaining legal instructions on whether our Company which is incorporated under Companies Act, No.7 of 2007, falls into the category of Public Authority as defined in the Right to Information Act, No.12 of 2016.	The Management should take action in terms of the Right to Information Act.

(b)Public Enterprises

Circular

No.PED/12 of 02

June 2003 of the

Department of

Public Enterprises

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| (i)   | Section<br>7.4.1 | An Internal Audit Unit had not been implemented by the Company while no Audit Committee meetings as well had been held.   | Attention of the Board of Directors has been paid for the appointment of an Internal Auditor. Accordingly, action will be taken to comply with these provisions in future. | The Management should take action to implement an effective internal audit as a proper internal control methodology.   |
| (ii)  | Section<br>7.4.5 | The Company had not conducted the Annual Boards of Survey.  | Action will be taken to conduct an Annual Board of Survey in the year 2019.  | In terms of circular provisions, the Management should take action to conduct an Annual Board of Survey.   |
| (iii) | Section<br>9.3.1 | A Scheme of Recruitment approved by the Board of Directors and the appropriate line Ministry, with the concurrence of the Department of Public Enterprises, General Treasury, was not available with the Company. | Action will be taken to act accordingly.   | Adopting a proper Scheme of Recruitment effects the good governance of the Company and as such, the Management should take action to formulate such a Scheme of Recruitment. |

## 1.7 Financial Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the original of the Call Deposit valued at Rs.5,962,500, bearing No.29/4092 deposited in the Sampath Bank on 10 July 2002 by the Company, was available with the Company as at 31 December 2018, the relevant value had not been mentioned in the financial statements. Moreover, documents for confirmation of converting the said deposit to cash had not been made available to Audit.	The Bank had verbally confirmed that it had been credited to the account of the Company with the relevant interest with the maturity of the said call deposit and a written confirmation will be speedily made available to Audit.	The Management should take action to prepare an accounting system with a proper control on receipt of fixed deposits and interests thereon.
(b) The Paying Officer should always consider whether the bank balance is adequate for all payments made by cheques. However, a sum of Rs.646,486 had been paid as interest on bank overdraft in the year 2018 due to the bank balance of the Company going down below zero.	The overdraft facility had to be obtained for solving working capital problems of the Company in the year 2018. Those problems have been solved by now and overdraft facility is obtained only under essential requirements.	In making payments by cheques, the Management should take action to issue cheques by checking the bank balance.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Company for the year under review had resulted in a profit of Rs.11,795,288 as compared with the corresponding profit of Rs.9,413,967 for the preceding year, thus indicating an increase of Rs.2,381,321 in the financial result. The decrease in the direct expenditure and increase in other income had been the main reason for this increase.

## 2.2 Analysis of Tendencies of Items of main Income and Expenditure

	2018 (Rs.)	2017 (Rs.)
Income	80,236,520	81,467,514
Direct Expenditure	(52,363,656)	(59,212,477)
Other Income	4,859,675	433,652
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	32,732,540	22,688,689
Administrative Expenditure	(29,848,247)	(29,105,515)
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Operating Profit	2,884,293	(6,416,828)
Net Financial Income	12,506,801	15,078,915
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Before Tax Profit	15,391,094	8,662,087
Income Tax	(3,595,807)	751,880
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After Tax Net Profit	11,795,288	9,413,967
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The following observations are made.

- (i) The income of the year under review had decreased by Rs.1,230,994 and the other income had increased by Rs.4,426,023 as compared with the preceding year.
- (ii) Direct expenditure of the year under review had decreased by 12 per cent and the net financial income, by 17 per cent as compared with the year 2017.
- (iii) The employees cost of the year under review had increased by Rs.6,131,049 as compared with the year 2017 and it is an improvement of 44 per cent as compared with the preceding year. Details are as follows.

	2018	2017	Difference
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	Rs.	Rs.	Rs.
Salaries and Wages	17,120,813	11,966,009	5,154,804
Payments for Medical Leave	473,509	382,648	90,861
Annual Bonus	1,710,122	962,872	747,250
Expenditure on Employees Welfare	878,185	684,141	194,044
Medical Insurance	723,359	779,269	(55,910)
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	20,905,988	14,774,939	6,131,049
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### 2.3 Ratio Analysis

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	2018	2017
i. Current Assets Ratio	1.99:1	2.28:1
ii. Quick Assets Ratio	1.98:1	2.26:1
iii. Gross Profit Ratio	34.74%	27.32%
iv. Net Profit Ratio	11.8%	11.5%

The following observations are made.

- Current assets ratio and quick assets ratio of the year 2017 had been 2.28:1 and 2.26:1 respectively and it had decreased as 1.99:1 and 1.98:1 respectively by the end of the year under review.
- The gross profit ratio which was 27 per cent in the year 2017 had increased up to 34 per cent in the year under review. The decrease in direct expenditure had been the main reason therefor.
- The net profit ratio which was 11.5 per cent in the year 2017 had increased up to 11.8 per cent in the year under review.

### 3. Procurement Management

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#### Audit Observation

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Nine suppliers had been selected under 03 categories on 15 February 2018 for providing private labourers to the Sri Lanka Ports Authority for loading and unloading goods into and from cargo ships and the said employees had been deployed in the service. However, the Company had not entered into agreements with those suppliers. As such, the risk of arise in problems on continuous supply of services and obtaining services on a reasonable basis, could not be ruled out in audit.

#### Comments of the Management

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However, the said service has been practically provided to the Ports Authority at the optimum level up to now. Action will be taken to enter into a service agreement as pointed out by you in the recruitment of new suppliers in the year 2019.

#### Recommendation

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Problems and disputes can be minimized by taking action according to Conditions stipulated in agreements on supply of services by both agreed parties and thus, legal background as well is created. Therefore, the Management should take action to enter into agreements on supply of these services.